

Mongolia Votes, as Resources Bring Wealth and Challenges

By [The Moscow Times](#)

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Former President Enkhbayar speaking to voters in Ulan Bator this week.

ULAN BATOR — Despite resurgent nationalism and an imminent election in mineral-rich Mongolia, the country's leaders are still keen on keeping foreign investment flowing in.

So as Mongolians vote for a new government this week, sensitivity to market sentiment will be in the back of their minds.

"Even with popular voter support for resource nationalism, authorities are still realistic and will not push it too far, because obviously they need high economic growth," said Dale Choi, an Ulan Bator-based analyst with Frontier.

Foreign investment in Mongolia's much-coveted mines helped expand the economy at the fastest pace in all of Asia last year.

But many of the country's 3 million voters say the bulk of the nation's nouveau wealth still

lies in the hands of the political elite.

Thursday's parliamentary election will see politicians from two major parties — the Mongolian Democratic Party, or MDP, and the Mongolian People's Party, or MPP — vying for a stake in running the country's affairs.

A shift to the left could end up saddling investors with higher tax bills and make it harder to win approval for new projects.

But the main players in the election remain broadly supportive of foreign capital, which has turned the dusty former Soviet outpost of Ulan Bator into a bustling boomtown.

Foreign firms doing business in Mongolia, such as Rio Tinto, can expect a more turbulent ride in the years to come.

"We believe that [resource nationalism] is broadly bipartisan and is to increase whichever party wins," Ulan Bator-based Frontier Securities said in a note to clients.

Mongolia's economy grew 17.3 percent in 2011, outpacing all in Asia and trailing only Qatar and Ghana globally.

Redressing Imbalances

For many voters, the seventh parliamentary election is another chance to try to redress an imbalance.

Since the end of Communism in 1990, Ulan Bator's resource policies have been notoriously laissez-faire as it sought to attract foreign investment on whatever terms possible.

Expectations are rising that policies could swing too far in the opposite direction, imposing more controls to redistribute mining wealth in a way that pleases voters.

Mongolia has already imposed restrictions on mining in forest or river areas, instituted a moratorium on new licenses and enacted a law designed to limit foreign ownership of "strategic" sectors.

President Tsakhia Elbegdorj, a former journalist and veteran campaigner from 1989, said Mongolia remains committed to the free-market approach to development.

"Open countries succeed in exploring for and using their mineral wealth, but closed societies fail," Elbegdorj, who holds a master's degree in public administration from Harvard, said in an interview last week.

The government has sought to redistribute wealth by creating social funds using mining profits, much like Norway has done with the money it generated from oil.

But that has resulted in cash handouts that have made very little difference to the underlying poverty.

Shift in Rhetoric

While Mongolia's course of economic development has been set, there has been a shift in rhetoric, said Sumati Luvsandendev, a pollster with the Sant Maral Foundation.

"The social justice issue is now at the top of the agenda," he said. "The attitude of Mongolians toward mining is based on an expectation that it will solve many of Mongolia's problems, but there is a problem of confidence about decision makers."

The mining boom has not improved conditions in large parts of the countryside or in Ulan Bator's crowded migrant districts.

"I don't see any benefits," said Altantsetseg Laagansuren, a 29-year old mother of three living in a crowded ger (tent) in one of the capital's sprawling makeshift suburbs. "I don't see anything changing. I think the people at the top are sharing and eating up the wealth."

Amitan Ulam-Undrakh, a camel herder and former township governor in South Gobi province, is a direct beneficiary of the Oyu Tolgoi project, which extracts copper.

He has watched closely as Rio Tinto and Ivanhoe's billion-dollar investment transforms the region's once moribund subsistence economy. But even he has reservations.

"Livestock and traditional sectors used to be the biggest part of the economy, and we should choose a leader who can allow mining and the traditional ways of life to coexist," he said.

Elbegdorj, from the nominally free-market MDP, is promising an end to mining overdependence.

He imposed a moratorium on new licenses and is preparing to approve a new mining law ahead of his own re-election campaign next year. He also hopes to raise taxes on miners to as much as 40 percent.

"We all agree [mining is an important part of the economy], but profits from mining should be invested in other sectors: infrastructure, human development and in the diversification of our economy," he said.

While the 76-member legislature, the Grand Khural, is sovereign and has ultimate power over laws, the 1992 constitution also gives equal executive powers to the president, which can lead to deadlock.

Rebel Force

The latest polls suggest that the MDP has sneaked ahead of the center-left Mongolian People's Party. Both parties formed a grand coalition after the 2008 election and ushered through the Oyu Tolgoi deal in 2009. The alliance ended in January.

But by hogging the middle ground, the big parties have left themselves vulnerable to a populist candidate prepared to exploit popular unease about income disparities. The biggest beneficiary has been Nambar Enkhbayar.

After his defeat in the presidential election in 2009, Enkhbayar fell out with the MPP and formed his own party using the MPP's old name, the Mongolian People's Revolutionary Party, or MPRP. Many in the MPP's left wing jumped ship with him.

He expected to contest a seat in the parliamentary election and fight for the presidency in 2013, but he was arrested in April on corruption charges that he insists were fabricated.

Unbowed by his subsequent exclusion from the vote, the former president continues to campaign on a largely left-wing resource-nationalist ticket, and his "justice coalition" could conceivably hold the balance of power in the new parliament.

Enkhbayar said he is not opposed to foreign capital in industries like manufacturing, but he said resources require a different approach.

Foreign firms should be rewarded for their exploration and development efforts but given a strict timetable to hand mining properties back to the people, he said.

"With the foreign investment law coming in and other laws being threatened, we can't expect an easy ride anymore," said an executive with a foreign mining firm. "I worry a bit about Enkhbayar because despite the corruption scandal, he seems to be stronger than ever."

Pollster Sumati said Enkhbayar has become the "none-of-the-above" candidate for frustrated voters.

"He has become a protest leader, and he is representing the rebels in both major parties," he said.

Debate

Last year, a group of backbench MPs urged the government to renegotiate the landmark 2009 Oyu Tolgoi agreement, which granted a 66 percent stake in the project to Canada's Ivanhoe Mines, now controlled by Rio Tinto.

Many of the lawmakers were also behind a 2007 law to submit miners to a windfall tax.

Foreign investors were relieved when the bid to revise the Oyu Tolgoi deal failed, but there were more worries to come.

The same backbenchers responded furiously to an attempt by Ivanhoe to sell its majority stake in the coal miner SouthGobi Resources and pushed through a foreign investment law designed to restrict overseas ownership in "strategic" sectors.

The law was diluted and finally passed in May, but it still contains worrying ambiguities.

Cameron McRae, country manager for Rio Tinto and chief executive of Oyu Tolgoi, said that though a number of "traditional politicians" are campaigning against foreign investment, many more are stressing support.

Rio Tinto is trying to repel arguments through community engagement. In the small town of Khanbogd, it is constructing gleaming new schools, roads and government buildings.

The Oyu Tolgoi mine is scheduled to start delivering ore to market by the end of August and will go into full operation next year. Analysts estimate that on top of the \$7 billion already invested, there is at least another \$6 billion to come.

Outsiders' eyes are also on the massive Tavan Tolgoi coal mine in the South Gobi region.

The election could have an impact if it increases the representation of resource nationalists like Enkhbayar who want to keep Tavan Tolgoi in Mongolian hands.

And the fate of the project could become a condition of his party's participation in a coalition.

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